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Reuters: China wages to rise as labor shortages grow

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By Zhou Xin and Alan Wheatley

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(Reuters) - The frustrations of companies in coastal China trying to hire enough workers may become a permanent headache, foreshadowing higher wages, according to a top labor economist.

Labor shortages, especially in export hubs in China's coastal provinces, have intensified since last month's Lunar New Year holiday, when tens of millions of migrant workers headed back from coastal factories to their home villages.

Beijing regards the bottlenecks as a temporary, regional phenomenon. But Cai Fang, head of the Institute of Population and Labour Economics with the Chinese Academy of Social Sciences, disagreed.

"It's certain that the migrant worker shortage is here to stay in China," Cai told Reuters.

Factories are finding it tough to recruit even though China's working-age population, in the 15-64 age bracket, will not peak until 2015.

Cai said wages for China's 150 million or so migrant workers increased 19 percent in 2008 and 16 percent in 2009, even though exporters were hit hard by the global financial crisis and more than 20 million migrants lost their jobs.


The manager of a shoe factory in the eastern city of Wenzhou said he had been unable to hire 300 workers despite adding 200-300 yuan per month to last year's average salary of 1,500 yuan (\$220).

"This year we have a lot of orders, but the problem is we don't have enough workers," he said. Raising prices was not an option because of competition from newly opened factories, so profits were being squeezed, the businessman added.

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"There is little doubt about the long-term trend of rising wages in China," said Cai, a standing member of the National People's Congress, China's largely ceremonial parliament.

Economists at China International Capital Corp agreed that the end of China's demographic dividend would help increase labor's share of national income, driving up consumption.

"Judging from the experiences of [Japan](#)  and Korea, we are particularly positive about urban consumption of such goods as vehicles, travel services, healthcare, culture and entertainment, as well as the fast growth of rural appliance sales in China over the next few years," they said in a report.

Labor typically accounts for less than 10 percent of manufacturing costs in China, but businesses, many working on thin margins, also face the risk of a rise in the yuan.

Businesses have been able to absorb higher costs by increasing productivity. More and more companies have also been shifting production inland, where labor costs are lower -- a trend that Cai expects to gather momentum.

"A monthly salary of 1,500 yuan in Guangdong may be too low to attract workers; but if that pay is on offer in an inland city, people are willing to take the job," he said.

Cost pressures will also force companies to climb the value ladder -- a key objective of the government's economic policies.

"Sweatshops in coastal areas with low wages, poor working conditions and narrow profit margins are set to go bust," Cai said. "The process of industrial upgrading will speed up."

And as workers become harder to attract, local governments will have to shift from being "pro-capital" to "pro-labor," for instance by raising minimum wages and making it easier for migrants to settle in cities with their families, Cai said.

In Guangdong, which accounts for about 30 percent of the country's exports, the local government plans to raise its minimum wage by more than 20 percent.

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